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SUBJECT: BELARUS: POPULATION DISTRESSED AND DISILLUSIONED BY
IMF-MANDATED DEVALUATION, IMPACT OF GLOBAL FINANCIAL CRISIS

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Summary

¶1. On January 1, Belarus' National Bank announced a sharp devaluation of the national currency against the U.S. dollar, Euro (EUR) and Russian ruble (RUR), fulfilling an IMF condition for a USD 2.5 billion loan. The devaluation received highly skeptical responses from independent economic observers and both scared and outraged and scared Belarusian citizens. People here highly doubt the National Bank's pledges to allow no more such devaluations in 2009, and have lost tremendous faith in the GOB, which had promised (and, previously, delivered) stable and reasonable propserous economic conditions. End summary.

¶2. In the afternoon of January 1, Belarusians received an unpleasant New Year's gift from the country's National Bank. In accordance with IMF conditionality for obtaining a USD 2.5 billion loan (reftel), the Bank announced a 20.45 percent devaluation of the Belarusian ruble (BYR), against the USD and slightly smaller devaluation against EUR and the RUR effective January 2. Starting on January 2, Belarus began pegging the BYR to the basket of the USD, RUR, and EUR with all three having an equal part in the basket. The BYR value of the basket is to fluctuate throughout 2009 no more than five percent. Ideally, the move should give a competitive edge to the country's economy and secure the stability of the National Bank's new monetary policies. The Bank relies on accumulating through loans from Russia, IMF and maybe from some other sources USD 8-10 billion in hard currency reserves by the end of the year to cushion the negative effects of the global financial and economic crisis.

¶3. In late December 2008, the National Bank and the GOB secured the IMF's initial agreement to provide USD 2.5 billion under a 15-month Stand-By Arrangement (SBA) in support of Belarus' economic recovery. Comments by IMF Managing Director Dominique Strauss-Kahn that Belarus' economy "has recently shown signs of overheating" and the country "has also been hit hard by the global economic crisis" have been widely reported here. Nevertheless, Belarusian President Lukashenka was insisting as late as January 7 that "there is no crisis in Belarus". Similarly, Lukashenka had stated on several occasions in late 2008 that the GOB would preserve the stability of the Belarusian ruble and not allow it to be depreciated.

¶4. So far, the loss of confidence and trust in regime's financial policies has impacted the population more deeply than the loss in living standards. Long lines at stores, banks and currency exchange offices, as well as gloomy comments and forecasts in internet forums and blogs are a clear indication of the growing panic fueled and accompanied by rumors, often most unrealistic. However, there are no signs that people's resentment and despair may spill over to the streets. Many

bloggers and internet forum attendees agree that devaluation is a sensible economic instrument but it should have been performed in a way that would not allow deceiving and robbing the poorest people. Independent economic pundits believe that seniors will be hit the hardest. The Belarusian internet is full of suspicion that the regime and Lukashenka in the first place used IMF-mandated devaluation to make big money through insider trading. There are unconfirmed reports that many Belarusian companies, which had significant amounts of hard currencies on their bank accounts, were required to promptly sell them for Belarusian rubles right before the end of last year.

¶5. Currently, many Belarusians try to get rid of their Belarusian rubles as soon as possible. Seeking to secure their earnings, they are desperately trying to buy hard currency or consumer goods (mostly higher technology). Wide and persistently circulating long-time rumors suggest that the authorities will shortly introduce the new Belarusian currency (allegedly printed in or brought from Lithuania), which will denominate (cut two zeros) and replace the existing one, thereby more closely approximating the Russian ruble. (For example, moving the exchange rate from BYR 2650:USD 1 to BYR 26.5:USD 1. According to other rumors, further depreciation is inevitable, with the Belarusian ruble falling to a rate like BYR 6000:USD 1 by the end of 2009.

¶6. Independent economic observers have issued rather skeptical comments on the regime's new monetary policies. One of the leading economists of the independent Institute of Privatization and Management Yelena Rakova believes the percent devaluation will not solve all problems as most Belarusian exporters are highly dependent on imports; the prices of imported goods have now risen 20 percent to compensate for the devaluation. She predicts the country will need to depreciate the currency again in 2009 and that will lead to both higher inflation and many bankruptcies in the banking sector. Former Chairman of the National Bank Stanislav Bogdankevich opined that devaluation and pegging the currency to a three-currency basket were both

economically sound, but those decisions were long overdue and are not sufficient to help the largely unreformed economy. Strategiya think tank chair Leonid Zaiko criticized GOB "short-sighted" monetary policies and predicted continuing devaluation, up to 40 percent inflation and about 70 percent of Belarusian banks being in red by the end of 2009. He also expressed the view that the replacement of the Belarusian ruble by the Russian ruble would be the best solution for the needy Belarusian economy.

Comment

¶7. The regime decided to sacrifice its image and agreed to serious political losses due to the ongoing financial problems and others looming of the state-controlled economy, which in turn threatened the regime's overall stability. Speaking at the Russian Orthodox Christmas festivities in Minsk on January 7 Lukashenka said: "We have done a lot and now all depends on the people". The fact that the rest of the world is also facing economic difficulties helps to diminish the blame assigned to the GOB. The regime is probing into people's ability to tolerate the most unpopular economic steps. Belarusians seem to remember well their Soviet survival skills and, although greatly worried, show no inclinations to protest publicly. That may change as inflation hits and state-owned enterprises lay off more employees; analysts predict that the late winter/early spring will be the time to watch the population closely.
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